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C O N F I D E N T I A L SECTION 01 OF 03 BRASILIA 000931

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TAGS: PGOV KCOR BR

SUBJECT: BRAZIL: SENATE SCANDAL TAKES A BREATHER...BUT IT'S NOT OVER

REF: A. BRASILIA 799
1B. RIO DE JANEIRO 190

Classified By: DCM Lisa Kubiske, reasons 1.4 B and D

11. (C) Despite weeks of attacks and a continuous drip of negative stories in the media, former Brazilian president and current Senate President Jose Sarney (Brazilian Democratic Movement Party, PMDB- Amapa) remained in place as Congress left for a two week recess July 17. Although papers are carrying new revelations almost daily, Sarney may yet manage to remain atop the Senate leadership. If he does, it will thanks in large part to the vigorous lobbying by President Lula on his behalf and Sarney's own political maneuvering in the Senate to mollify the opposition. Lula and, somewhat grudgingly, Lula's Labor Party (PT) have stood behind Sarney in an effort to maintain the cohesiveness of the PT-PMDB coalition heading into the October 2010 presidential elections, when PMDB support will be essential if the PT candidate, almost certainly Minister Dilma Rousseff, is to succeed. Although Sarney and the coalition may survive, the high-profile series of scandals has further weakened the congress as an institution and made it even less likely that major legislative priorities will be achieved in the next 18 months, as election politics dominates the political scene.
End summary.

New Scandals Surface for Sarney

12. (U) For weeks, Senator Sarney has been staving off attacks and calls to step aside from the Senate presidency due to various ethics charges in the Senate (ref a), as well as complaints of mismanagement, nepotism, and malfeasance, saying that the crisis was "the institution's crisis, not his." However, the week of July 13, influential daily Estado de Sao Paulo added to Sarney's woes by revealing last week that the Sarney Foundation -- a Maranhao-based institute and museum dedicated to preserving his presidential papers -- received a donation from Petrobras for 1.3 million reais (about USD 650,000) in 2005, some 40 percent of which was intended for a project that never got off the ground. Instead, the money was allegedly siphoned off to various entities linked to the Sarney family, including TV Mirante and two radio stations owned by Sarneys.

¶3. (U) After these revelations, Sarney spoke on the floor of the Senate to claim he had no role whatsoever in the running of the Foundation. Two days later, Estado de Sao Paulo published the Foundation's charter and other administrative documents which indicated that Sarney was the Foundation's "president-for-life," was formally involved in various decision-making structures of the organization, and had veto power over decisions of the Council of Curators, over which he presides. The Council counts as members Sarney's son, brother, and son-in-law, as well as Sarney cronies from his time as president of Brazil. These revelations contradicted Sarney's floor statements and might result in a Senate investigation for ethics violation and breach of Senate decorum. Brazilian Social Democracy Party (PSDB) caucus leader Senator Arthur Virgilio filed papers with the Attorney General's Office to seek an investigation of the issue.

¶4. (U) A Federal Police (DPF) investigation into his son, Fernando, for money laundering has also embarrassed the Senate President, as photos of his son's and daughter-in-law's arrests made front-page news. To make matters worse, in the course of the investigation the DPF intercepted communications that revealed the Senate President's efforts to place the boyfriend of one of his granddaughters into a Senate staff slot that had previously been occupied by another Sarney family member through a secret act approved, Senate director Agaciel Maia, appointed by Sarney in a previous term as Senate President and recently forced to resign as a result of the broader corruption scandal.

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Sarney Strategy: Misdirection

¶5. (U) Reacting to pressure on two fronts -- scandals and political pressure to install the CPI to investigate Petrobras -- Sarney on July 9 agreed to establish the CPI, but kept control of it by having a supermajority of members, as well as the president and rapporteurs, be from the governing coalition. The governing base is also counting on the two-week recess that began July 17 to let the crisis cool down. The PMDB strategy in installing the CPI is to take the focus away from Sarney. There is speculation that the controlling faction of the CPI will only allow a real investigation if attacks against Sarney continue, as a way to divert attention away from Sarney; if the attacks taper off, the CPI will remain toothless.

¶6. (U) On July 13 Sarney also annulled all 544 secret acts taken by the Senate in the past 14 years, which had benefited senate employees with overly generous overtime and had hidden blatant cases of nepotism. For example, one of the secret acts dealt with the resignation of a member of Sarney's family from the office of Senator Epitacio Cafeteira (PTB-MA). His resignation was handled as a secret act to avoid revealing the nepotism involved in the original hiring.

PT vs. PMDB

¶7. (U) The Sarney troubles are creating tension within a Workers Party (PT)-PMDB alliance that is crucial if President Lula is to elect his successor. Lula made a public, personal, and vigorous defense in Sarney's favor, ensuring that the PT Senate caucus leadership and the PT continued to support Sarney, although grudgingly. Even so, some PT senators, as well as senators from the smaller parties in the governing coalition, have broken ranks and called for Sarney to step down. Pedro Simon (PMDB-RS), Cristovam Buarque (PDT-DF), and Eduardo Suplicy (PT-SP), among other senior senators, have suggested⁸ Sarney step aside temporarily.

Comment:

¶8. (C) Lula's support for Sarney, and the fact that some PT members are refusing to follow suit, is principally about election politics heading into 2010. Lula and the PT need the PMDB's support to win. Although the PT has never had any great affection for Sarney -- who in his past supported the military regime and in the most recent election for senate president defeated the PT candidate) the primary reason some PT senators are breaking ranks with Lula has an election-related cause, also: two-thirds of them face re-election and fear alienating constituents by supporting the allegedly corrupt status quo in the Senate. The principal negative repercussion for the PT from its dissident senators is that it could fray a PT-PMDB alliance already tenuous in various states, such as Mato Grosso do Sul, Bahia, Minas Gerais, Santa Catarina, Parana, and Para, heading into the 2010 elections.

¶9. (C) Establishment of the Petrobras CPI and the revocation of the secret acts could buy Sarney and the PMDB time and take some of the momentum away from the opposition by acceding to their biggest demand and leading the media frenzy away from his own problems. If so, Sarney, the PMDB, and Lula have a good chance of accomplishing their strategy, bringing dissidents back into the fold, and smoothing over any tension between the PMDB and the PT in time to repair the alliance well before the election heats up. However, the almost daily revelation of new illegal or unethical behavior by Sarney, his family, other senators, or senate staff

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continues, and could still undermine these efforts. The least disruptive result would be Sarney's resignation and replacement with, almost certainly, another PMDB stalwart. But a prolonged crisis could split the PT-PMDB coalition, throwing wide open the political alliances taking shape in advance of the October 2010 national (presidential, senate, chamber, governor, and local legislator) election.

¶10. (C) On a broader scale, this latest crisis, one of a series over the last few years, appears unlikely to undermine Brazil's solid democratic institutions. But it has weakened congress vis--vis both the courts and the presidency. In particular, this weakness has played into the hands of a popular president who, under the 1989 constitution, already exercises greater weight than either the courts or the legislature and who has not hesitated to exercise his powers (e.g., to issue provisional measures and to withhold authorized spending) to advance his agenda. At the same time, the crises have created a distraction that has prevented congress from taking steps to strengthen the legislature's hand or from acting on badly needed political and economic reform measures. With the 2010 elections already dominating the political agenda, the possibility of passing any politically charged legislation over the next 18 months -- anti-terrorism legislation, for example -- has become slight.

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